

## Cultural Health Index

**What:** Cultural Health Index

**Who:** All employees

**When:** Beginning July 18

**How:** Electronically. Employees will be e-mailed a link to the CHI Web site.

**Where:** TVA-wide

**Why:** To ensure future business performance

## Baxter named TVA chairman

Helping employees stay focused on operational excellence and fiscal responsibility as TVA transitions to a new form of governance is a priority for Director Bill Baxter, who President Bush has designated chairman of the TVA Board.

"I look forward to working with fellow Board member Skila Harris, our President &

Chief Operating Officer Tom Kilgore and his leadership team, and all employees of TVA during this transition period to the new nine-member Board," Baxter says.

"I am honored to be selected by President Bush to serve as TVA Chairman, and I appreciate the support from Senator Frist and Senator Alexander."

Baxter will serve as chair-

man until the restructured nine-member board is in place and has selected its chairman.

He succeeds Glenn McCullough Jr., whose term ended May 18. Bush appointed Baxter to the Board in November 2001.

"I have absolute confidence that the new Board and CEO will ensure TVA's success in the future," Baxter says.



Bill Baxter

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Benchmarking  
for high performance

## page 3

Great idea helps WP

CHI timeline



CLETUS MITCHELL

In the Systems Operations Center in Chattanooga, Electric System Operations' Vice President Van Wardlaw (center) discusses interchange transactions on the high-voltage network with Ron Robinson (left) and Rocky Roberts. ESO's focus on teamwork led to a high Cultural Health Index in FY '03 and to a high Winning Performance payout in 2004.

Success at TVA, as well as at any company, is achieved by high performance. And high performance is achieved by healthy organizations.



In July, employees will be asked to participate in the 2005 Cultural Health Index, which will provide a leading indicator for FY 2006 business performance.

"Employees, the CHI is your chance to speak and be heard," says Mike Purcell, senior manager of Employee Technical Training & Organizational Effectiveness. "Your collective voice can help make a stronger TVA."

Whether it's General Electric manufacturing quality products, Southwest Airlines striving to offer excellent customer service or TVA producing affordable, reliable power, high cultural health predicts high company performance. And at TVA, the numbers don't lie: high Cultural Health Index results in 2003 predicted a high Winning Performance payout in 2004.

Take Transmission/Power Supply's Electric System Operations, for example. That group's high CHI results translated into high Winning Performance 15 months later.

The reason? An environment that promotes employee engagement.

"We set a high standard of excellence for our work team that is embraced by everyone," says Van Wardlaw, vice president of ESO. "And we create a culture to win. We want every employee

**'Being new to TVA, it is important to me personally to understand how employees view our workplace. It will take the committed effort of every employee for us to improve our performance. Your opinion, provided in the Cultural Health Index survey, is an important input to our business planning. I encourage your prompt and candid participation.'**

— Tom Kilgore,  
President/Chief Operating Officer

## what's new in employee news

### New employee IDs now in use

Employees and contractors began using Employee Identification numbers, or EINs, June 27. The EINs address concerns about privacy issues and minimize the use of Social Security numbers as a unique identifier.

Human Resources and Information Services have replaced SSNs with EINs for identification purposes in company information systems that read or access data from HRIS (Human Resources Information System).

Employees will use their EIN instead of their SSN to log on to such applications as ePay, eWorkplace and Employee Self Service.

Employees can obtain their EIN by clicking on the "TVA Directory" link listed under "Shortcuts" on TVA's internal homepage.

Employees also can call the Employee Service Center at 632-8800 in Knoxville, 751-8800 in Chattanooga or toll-free at 1-888-275-8094 to obtain their EIN.

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InsideTVA

Senior Manager,  
Internal Communications,  
**Carolyn Bradley Minter**  
Editor, **Nancy Cann**  
Art Director, **Kym Morrison**  
Photo Editor, **Cletus Mitchell**

**CORRESPONDENTS**  
Suggestions for articles can  
be sent to the following  
correspondents:

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Bellefonte, **Susan Gentle**  
Browns Ferry, **Craig Beasley**  
Sequoyah and Watts Bar,  
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TVA also ensures that the  
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MORE ON CULTURAL HEALTH INDEX

Benchmarking valuable for measuring culture

What makes a high-performing company? That's a question the Gallup Organization has been studying for years. And it's of interest to TVA as the company strives to improve productivity and income, while retaining employees and increasing customer loyalty.

"Gallup's research found that the 'soft' numbers reflecting cultural health are the best leading indicators for future business performance," says Phil Reynolds, vice president of Human Resources Operations Support. "The 'soft' numbers reliably predict the 'hard' numbers. Gallup discovered that employee engagement is a leading indicator that predicts other more tangible business outcomes.

"Although these are not the exact questions we will be asking in our Cultural Health Index, our questions tap many of the same dimensions. We've benchmarked employee surveys at other high-performing com-

panies to come up with a true, valid measure for improving TVA's business performance."

Gallup studied the relationship between workplace perceptions and business outcomes across 2,500 business, healthcare and education units. Outcomes in productivity, employee turnover, profitability and customer satisfaction were included.

"The data show that employees in successful business units have clear expectations, competent leadership, close relationships and can see how what they do relates to something significant while learning and growing as individuals," Reynolds says.

"Based on previous CHIs, we have found this true at TVA, also. Now we are in a position to really use the CHI as an early indicator to ensure future business performance."

— NANCY CANN

**The Gallup Organization has studied human nature and behavior for more than 70 years.** After interviewing more than a million employees and conducting hundreds of focus groups with top-performing employees and managers at all levels, Gallup found that employees' responses to the 12 statements below differentiate high-performing, highly engaged workgroups.

Question	Productivity	Turnover	Profit	Customer
1 I know what is expected of me at work.	●	●	●	●
2 I have the materials and equipment I need to do my work right.	●	●		
3 At work, I have the opportunity to do what I do best every day.		●	●	●
4 In the last seven days, I have received recognition or praise for doing good work.	●		●	●
5 My supervisor or someone at work seems to care about me as a person.	●	●	●	●
6 There is someone at work who encourages my development.	●		●	
7 At work, my opinions seem to count.	●			
8 The mission/purpose of my company makes me feel my job is important.	●		●	
9 My associates (fellow employees) are committed to doing quality work.	●			●
10 I have a best friend at work.	●			●
11 In the last six months, someone at work has talked to me about my progress.			●	
12 This last year, I have had opportunities at work to learn and grow.	●	●	●	

● Strongest positive correlations; higher scores associated with higher outcomes, and generalizable across the organizations Gallup studied.

**The following are examples of what the relationships mean to organizations Gallup studied:**

**Productivity** — Business units in the top quartile of the overall average of the 12 items have a 50-percent higher success rate in comparison to business units in the bottom quartile.

**Employee turnover** — Business units in the top

quartile of the overall average of the 12 items have a 13-percent higher success rate (less turnover) in comparison to business units in the bottom quartile.

**Profit** — Business units in the top quartile of the overall average of the 12 items have a 44-percent higher success rate in comparison to business units in the bottom quartile.

**Customer satisfaction** — Business units in the top quartile of the overall average of the 12 items have a 50-percent higher success rate in comparison to business units in the bottom quartile.

Success rate is defined as above-average performance for business units within a given company.

Winning culture

continued from page 1

to feel comfortable to step up and be engaged in the company. They know that we all win together or we all lose together."

ESO is responsible for transmission reliability, operations forecasting, control systems and other processes that "keep the lights on." Wardlaw says ESO's Winning Performance indicators are specific and technical in nature. Through March this year, the group is on target for four of its five measures.

"Any poor performance is immediately seen," he says. "Our line of sight is extremely clear, and our targets are credible. We make the results visible by giving the employees frequent updates on how we're doing. And we encourage them to provide input into how to achieve our goals."

One avenue is through the ESO Employee Council, which is made up of representatives from each work group.

"The council is totally self-driven," Wardlaw says. "For example, it has implemented an enhanced mentoring program to ensure that our new employees understand how to contribute to the team's

success. I just sit in as sponsor and 'cheerleader.'"

Wardlaw says the Employee Council conducted a Cultural Health Index for ESO before the TVA-wide CHI. The council communicated the results with the employees and developed action plans for improvement.

"The most important element in a CHI is for employees to see that their suggestions are heard and acted upon," he says. "That doesn't mean every suggestion is implemented, but employees deserve to see positive evidence that their input matters."

And that, Wardlaw says, increases engagement.

"Leadership is across the board in our organization," he says. "Our management team sets the tone, but leaders emerge from everywhere. It's amazing what people will do when given the chance."

"Operating 24 hours a day, seven days a week, we have a very demanding environment. With the right attitudes, everyone can work together to achieve success. And for our group, that means the lights stay on across the Tennessee Valley."

— NANCY CANN

**'The most important element in a CHI is for employees to see that their suggestions are heard and acted upon.'**

— Van Wardlaw, ESO



MORE ON CULTURAL HEALTH INDEX

Seizing a chance to improve performance

Allen Fossil Plant had high Cultural Health Index results in 2003 and a high Winning Performance in 2004. Through teamwork, Noel Mizell’s innovative modification on Allen Fossil Plant’s SCR system is making a significant difference in the plant’s environmental performance as well as on TVA’s Winning Performance environmental-impact indicator.

Senior Instrument Foreman Noel Mizell saw an opportunity to improve Allen Fossil Plant’s selective catalytic reduction system. And even more good news — the modification has an investment payback period of less than two months.

“Noel spearheaded the development to automate the operation of the balancing valves in the ammonia injection system,” says Allen Plant Manager Louis Lee. “This resulted in lower consumption of ammonia as well as improved nitrogen-oxide reduction. Both are significant to the environmental performance of our plant.

“The simple modification is expected to be used at other TVA coal-fired plants with SCRs to further reduce NOx emissions across the Tennessee Valley.”

Allen is one of seven TVA fossil plants that use an SCR system to control NOx emissions. SCRs chemically transform NOx emissions into harmless nitrogen and water using a catalytic reaction. Boiler-exhaust gases mix with anhydrous ammonia and then pass through a series of honeycombed structures containing the catalyst that causes the chemical reaction to remove nitrous oxides from the flue gas.

Mizell, who has been with TVA 18 years, says the team worked together to take his idea from concept to reality.

“We had plant engineering and plant maintenance involved as well as corporate engineering,” he says. “With the cooperation from our team and the support of FPG management, we were able to get this project completed in time for the NOx season this summer.”

To automate the operation of the balancing valves, accurate real-time measurement of NOx in the flue gas is essential. The existing NOx sensors control the balancing valves. Mizell identified the need for additional electronics and logic to provide this function.

“Because of Noel’s experience and innovative thinking, we now have a system that can better handle the normal variations of NOx,” says Lee. “His in-depth knowledge of how SCRs and our plant operate has helped greatly reduce our summertime NOx emissions. The improvements Noel developed combined with our operation employees’ commitment to control combustion within specs has resulted in a reduction in our summer NOx emission rate of about 24 percent compared to our rate last summer.” — TERRY JOHNSON



Glen Civera, system engineer (left), and Noel Mizell discuss the ammonia control on the ammonia injection grid at Allen Fossil Plant.

Winning Performance

TVA’s Six Strategic Objectives

River and the environment

Affordable, reliable power

Sustainable development

Continuing debt reduction

Reducing TVA's delivered cost of power

Stakeholder relations

TVA Balanced Scorecard for May 2005

	Weight	Status	Actual YTD	Plan YTD	Year-End Forecast	GOALS		
Financial						Target*	Mid	Stretch
• O&M Costs (\$ millions)	15%	⬆️	2,368	2,389	3,578	3,584	3,548	3,477
• Financial Strength (\$ millions)	15%	⬆️	102	118	280	225	300	440
• Productivity (kWh/\$)	10%	⬆️	157.0	146.4	153.7	153.7	156.9	158.5
Customer								
• Customer Satisfaction (%)	10%	⬆️	101.8	100.0	101.0	100.0	103.0	107.0
• Economic Development (index)	10%	⬆️	116	100	100	100	110	120
Operations								
• Asset Availability (%)	20%	⬆️	103	98	100	98	100	102
• Environmental Impact (index)	10%	⬆️	50	79	72	78	73	68
People								
• Safe Workplace** (all injuries/hour worked)	10%	⬇️	1.81	2.12	2.12	2.12	2.12	2.06

**Notes:**

- \* Target equals FY04 Performance Plan Target.
- \*\* Payout at any performance level is contingent upon no fatalities.

**Status:**

- ▲ = Forecast at or better than Target
- ▴ = Forecast worse than Target, but recovery is possible
- ▼ = Forecast worse than Target, and recovery is unlikely

This scorecard has been posted on the Winning Performance section of TVA's internal Web site.

It's all online — but accessible

The Cultural Health Index survey will be available electronically beginning July 18 for 10 days.

The survey asks employees how their work links to business goals, workgroup functioning and capabilities, as well as other work factors affecting employee engagement.

TVA's leaders will use the survey results to develop and carry out action plans that will bolster and ensure FY '06 business performance and improve work environments.

How it works, and how it's different — and alike — from previous CHIs:

- The CHI survey will be available electronically to all employees. Those who do not regularly have access to computers will be encouraged to use computers set up for survey use at operations facilities and remote locations.
- The survey will include about 30 questions — down from more than 80 questions in the last CHI.
- As with other surveys, employees can add comments, which will be included in feedback to management.

CHI timeline

**July 18** — Launch the CHI electronically to all employees. The CHI will be available online for 10 business days. TVA Today will publish regular reminders about the survey.

**September** — Organizations will receive reports at the Strategic Business Unit and Business Unit levels, and at the TVA-level. By request, Organizational Effectiveness and Human Resources consultants will help organizations create customized solutions if the resulting data show that action plans and improvement targets are needed.

Inside TVA will report on overall results.

**October** — Even as organizations begin to create action plans, the CHI will begin conducting periodic polling. Employees will participate through random selection.

## NEWS

# Rate increase to be recommended to Board

**A**fter two years of controlling costs to help offset rising fuel and operating expenses, TVA's executive staff will recommend that the TVA Board approve an increase in firm wholesale power rates to be effective Oct. 1, 2005.

The proposed increase is expected to increase TVA revenue by about \$524 million in fiscal year 2006. The recommendation will be presented at TVA's board meeting in July. If approved, it will be only the third rate increase in 18 years.

Rising costs of coal, natural gas, purchased power and other expenses are reasons for the request.

"Increased costs of fuel and power purchased from other suppliers is an industry-wide issue," says President & Chief Operating Officer Tom Kilgore. "For TVA, fuel and purchased-power costs are expected to increase by more than \$700 million from fiscal year 2004 through 2006."

In 2003, TVA asked for a rate increase to pay for the cost of installing environmental equipment over the next 10 years. From FY 2002 through April 2005, TVA has incurred environmental-compliance costs amounting to more than \$1.6 billion. This includes clean-air capital and operations & maintenance and interest costs. TVA has collected more than \$550 mil-

lion in environmental-cost recovery since the rate adjustment was implemented in FY 2004.

To contain rising costs and increase efficiency, TVA has taken the following steps:

- In FY '04 and '05, reduced base operating and maintenance in the Administration organization, as well as O&M projects and capital-projects costs, by \$55.8 million.
  - From FY 2003-05, maintained coal contracts to help lessen the impact of price increases, enabling TVA to procure coal for \$550 million less than the market price.
  - In 2004, the fossil-power system's improved performance — setting an all-time record for reliability — saved TVA about \$123 million.
  - TVA's nuclear fleet set a new calendar year record for generation in 2004; net electrical generation was 47.07 billion kilowatt-hours — enough electricity for every household in the TVA service area. Browns Ferry Unit 2 and Watts Bar Unit 1 achieved their highest generation to date.
  - Saved \$137 million in generation costs through strategic bulk-power purchases in 2004.
- "We're getting maximum efficiency from our generating units," Kilgore says. "We reduced capital and

O&M budgets for 2004-2006 by more than \$190 million."

But it's the price of fuel and purchased power that's impacting the industry the most.

"TVA has seen coal prices increase by 25 percent and the price of natural gas increase by 32 percent during the past two years," Kilgore says. "At the same time, the price of power we purchase from other suppliers has increased by 26 percent. We've been able to hold the change in fuel and purchased-power cost well below the change in market prices for coal, natural gas and purchased power."

## Pressure on competitors to raise rates

Fuel-price increases have affected other utilities as well as TVA. The following neighboring utilities also have asked for rate increases:

**Alabama Power** — In January 2005, raised rates by 1 percent per year, effective until 2013

**Georgia Power** — Raised rates by 4.2 percent as of March 2005 and by 7.9 percent this month.

**Mississippi Power** — Proposed 8 percent increase.

## people, plaudits and promotions

**Bruce Aukland** has been promoted to plant manager at Browns Ferry Nuclear Plant. Aukland, who has more than 30 years of experience in nuclear operations, joined TVA in July 2004 as Browns Ferry's assistant plant manager. Previously, he had been with Progress Energy for 10 years. At Progress, he served at the company's Brunswick and Shearon Harris nuclear plants in various leadership positions. Before his tenure at Progress, Aukland served in the U.S. Navy for 22 years. He held several supervisory positions in the Navy, including commanding officer of an attack nuclear submarine and chief nuclear engineer officer.



Bruce Aukland

**Rick Carson** of Research & Technology Applications has been honored with the 2005 Wind Powering America Award for his leadership, creativity and commitment to wind-energy development in the Southeast. Wind Powering America is a program led by the U.S. Department of Energy to promote wind-energy development by outreach and support projects. Carson, who has been actively involved in TVA's Wind Energy Program at Buffalo Mountain, has conducted wind-monitoring, tall-tower testing and turbine-verification testing for DOE. He also has supported Appalachian State University in small wind-turbine field testing and outreach activities.



Rick Carson

**Tim Dickerson** has joined Cumberland Fossil Plant as engineering manager. He brings more than 20 years of power-generation experience, having served as maintenance superintendent, plant engineering manager, shift supervisor and plant manager at the MidAmerican Energy Co. and director of operations at Trigen Baltimore Energy Corp. in Maryland. Dickerson is a registered professional engineer and has a bachelor of science degree in engineering and a master's in business administration.



Tim Dickerson

**Shawn Keef**, civil engineer-design in Transmission/Power Supply's Transmission Line Projects organization in Chattanooga, has completed the requirements of the Chief Operating Officer organization's Engineering Graduate Progression Program and has



Shawn Keef

achieved the senior engineer level at TVA. This achievement represents an important milestone in the career of an engineer.

**Nolan Maychrzak**, an Electrician Apprentice in Substation Construction, Electric System Projects, has been honored as TVA's Overall Trainee of the Year. Maychrzak also was honored as the TPS Electrician Apprentice of the Year for the second consecutive year. Also recognized were **Mark Bailey**, selected the 2004 Groundman Trainee of the Year, and **James Hampton**, chosen as the 2004 Lineman Apprentice of the Year. Lineman **Curtis Sims** of the West Area Covington Line Crew was recognized for 40 years of TVA service.



Nolan Maychrzak



Mark Bailey



James Hampton



Curtis Sims

**Dawn L. Smith** has been named Cumberland Fossil Plant business analyst consultant. She has a bachelor's degree in accounting and a master's in business administration from the University of Tennessee at Martin, graduating with honors.



Dawn Smith

**Tom Wallace**, operations manager at Watts Bar Nuclear Plant, has been named corporate operations manager. **Dana White**, the current corporate operations manager, is serving as Watts Bar operations manager. Wallace will support the sites' efforts to plan and execute work on plant equipment in the most timely and efficient manner; provide assistance in resolving operational technical issues; and provide corporate oversight and governance. He will report to **Ashok Bhatnager**, senior vice president of Nuclear Operations. White will report directly to Plant Manager **Jay Laughlin** and will be responsible for directing operations and fire protection.



Tom Wallace



Dana White

## TVARS Board nominations accepted through July 11

Retirement Services is accepting nominations for a three-year term on the TVA Retirement System Board of Directors. The term will run from Nov. 1, 2005, through Oct. 31, 2008.

Any active member of the TVA Retirement System is eligible to run for election.

Signed petitions and supporting candidate information forms must be received by Randy Snyder, Executive Secretary, TVA Retirement System, WT 8A-K (400 W. Summit Hill Dr., Knoxville, TN 37902) by 4:45 p.m. EDT Monday, July 11.

Nominations will be made by petition, which must be signed by at least 25 TVARS members. Petitions also must contain information about the nominee, a statement saying the nominee has agreed to serve if elected, and the name of the member who originated the petition.

Retirement Services says nominees should be aware that serving on the TVARS Board requires a substantial amount of time. The board meets quarterly and also has additional special called meetings throughout the year. Each director also serves on committees, which require a considerable amount of study, telephone time and meeting-preparation time.

Petition forms are available on TVA bulletin boards, on the TVARS site on TVA's internal Web site or by calling Retirement Services at 632-2672.